What Consumers Expect from the Future of Automotive Retail

Catherine Hutt
Principal Consultant
Automotive Distribution, Retail & Aftermarket

2015
Frost & Sullivan’s 50+ Years of Global Research and Consultancy: Our Industry Coverage

Aerospace & Defense  Measurement & Instrumentation  Consumer Technologies  Information & Communication Technologies

Automotive & Transportation

Energy & Power Systems  Environment & Building Technologies  Healthcare

Frost & Sullivan Global Footprint 40+ Offices
Scanning the Globe for Opportunities and Innovation
Trends in Retail

1. Customer Expectations
2. eRetailing

Trends in Automotive Retail

3. Digitalisation of Retail
4. New Store Formats

Mega Trends impacting Automotive

5. New Automotive Business Models
6. Women Empowerment

Contents: Top Transformational Shifts Expected to Shape the Future of Automotive Retail

Source: Frost & Sullivan
What can car retailers do about these Transformations?
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Source: Frost & Sullivan
Transformational Shift No. 1: Retail - Customer Expectations

Personalization, digitalization and social connectivity are three key trends driving changes in retail.

Source: Frost & Sullivan
Transformational Shift No. 1: Retail - Customer Expectations

Consumer expectations of a personalized experience have reached new heights in retail.

73% of consumers would be likely to shop again with a retailer that went out of its way to offer good service.

Source: Frost & Sullivan, The UK retail publication: Retail Week
Transformational Shift No. 1: Retail - Customer Expectations
Digital technology is the essential enabler for companies to deliver the personal experience customers expect and connect customers to their peers.

The digital experience has become a key brand indicator – customers expect a cool/fun/intuitive product to give them an equally cool/fun/intuitive retail experience.

Source: Frost & Sullivan
Transformational Shift No. 1: Retail - Customer Expectations
The socially connected world of today means customers can crowdsource ideas and share experiences (good or bad) via social platforms in an instant.

Peer validation has always been an influential factor in the decision-making and purchase process - gaining and connecting brand advocates is becoming a source of competitive advantage.
Transformational Shift No. 2: eRetailing

Global online B2C sales expected to reach **$3.2 trillion** by 2020
- B2B expected to be **$6.7 trillion**

China online B2B sales estimated to be **$2.1 trillion** by 2020
- followed by US at **$1.9 trillion**.

- **40% increase** in the order value of goods
- **50% reduction** of operational costs

- 35–50% of businesses look to online platforms for buying goods
- **Less than 20% have** adopted them to sell products

*Source: Frost & Sullivan*
Transformational Shift No. 2: eRetailing - Digitalisation of Retail
Technology has the power shift the point of engagement upstream in the Customer Journey by personalizing the experience.

Information is essential for the customer to progress along this journey.

Source: Frost & Sullivan
Transformational Shift 2: Digital and Connected Retail
The ability to always “reach” customers will create comprehensive feedback and brand management loops currently lacking in the aftermarket

- Near-field Communication
- Augmented Reality
- Gamification
- Scanners / Sensors (RFID)
- Motion Sensing
- QR Coding

RFID = Radio-frequency identification. Source: Frost & Sullivan
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Source: Frost & Sullivan
Transformational Shift No. 3: Digitalisation of Automotive Retail
Technology plays a key role in meeting today’s Customer Expectations

1st Wave
Focus is on increasing sales leads through dissemination of product- and sales-related information through click-based channels.

2nd Wave
Focus on improving customer experience and sales conversion through in-store digitization.

Future Wave
Full integration of clicks formats into bricks retailing. New retailing models from adjacent industries and interactive technology will be the key focus in the forecasted period.

Source: Frost & Sullivan
Transformational Shift No. 2: Digitalisation of Automotive Retail

In 2016 alone, OEMs are expected to invest up to $5bn in digitalization and unveil over 100 digital show rooms across the globe

Source: Frost & Sullivan
**Transformational Shift No. 3/4: Digital Retail Strategies of Key OEMs**
OEMs are approaching digitization through different strategies that combine revamped showrooms, online retail portals, pop-up stores, and product-qualified staff.

**Future of Automotive Retail: Digital Retail Strategies of Key OEMs, Global, 2012–2022**

<table>
<thead>
<tr>
<th>Digital Showroom</th>
<th>Lifestyle Store</th>
<th>Online Store</th>
<th>Mercedes Cafe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mercedes Benz 2020—Best Customer Experience</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• New inner-city sales formats; use of digital tools; new job profiles—mobile sales assistants; differentiated customer approach in after-sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• More than 20 outlets opened; set to double by 2020</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Online and Digital Showroom</th>
<th>Digital Interactive Showroom</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2013–16</td>
<td>2013–20</td>
<td></td>
</tr>
<tr>
<td>• Ambitious global program—named Customer-approved Renault Experience (C@RE)</td>
<td>• Nissan’s 2020 retail initiative</td>
<td></td>
</tr>
<tr>
<td>• My Renault customer personal space portal</td>
<td>• Seamless online-offline connectivity across dealerships</td>
<td></td>
</tr>
<tr>
<td>• Behavioral training for technicians and sales staff</td>
<td>• Modern dealer layout and digitally trained sales and service staff</td>
<td></td>
</tr>
<tr>
<td>• Customer Promise, touch tablets, and Pit Stop</td>
<td>• Digital tools - tablets and wide plasma screens and LED lighting patterns</td>
<td></td>
</tr>
</tbody>
</table>

Image Source: Audi City, Mercedes Benz, Nissan UK, and Renault UK

Source: Frost & Sullivan
Transformational Shift 4: Small Store Format
Digital showrooms will be positioned in upscale areas, featuring 1/3 of a standard, conventional showroom and giving way to 20-30% of the space for digital technology.


Big Box

Small
Express formats

Ephemeral
Shorter lease times / stores within stores

Urban
Centrally located in cities

Small Box

By 2020, retail store size will be 15-20% lesser than the current average store size.

By 2020, lease and rent discounts of up to 40% are expected as retailers seek to make stores temporary and quickly rotate through different spaces.

Future stores will be easily accessible and will be within walkable distance—2 to 3 miles from city centers and urban hubs.

- In 2016, more than 100 digital showrooms and lifestyle stores will be unveiled by OEMs across the world.
- Strategically located in city centers, they will be 1/3rd of today’s typical showroom size with limited on-floor physical inventory.

Source: Frost & Sullivan
### Transformational Shift 4: Example

#### Hyundai Rockar KPIs

<table>
<thead>
<tr>
<th>Location</th>
<th>Shopping mall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open</td>
<td>Weekdays until 9pm</td>
</tr>
<tr>
<td>Average age</td>
<td>37 at Rockar (56 elsewhere)</td>
</tr>
<tr>
<td>Mall attracts Women</td>
<td>Visitors = 54%, Buyers = 60%</td>
</tr>
<tr>
<td>New customers</td>
<td>95% of customers have never owned a Hyundai before</td>
</tr>
<tr>
<td>Footfall</td>
<td>100,000 visitors and 78,000 website visits in first six months of operation (Nov’14 to May’15)</td>
</tr>
<tr>
<td>Expanding</td>
<td>Plans for a central London store and other OEMs are approaching Rockar</td>
</tr>
</tbody>
</table>

**Source:** Frost & Sullivan
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Contents: Top Transformational Shifts Expected to Shape the Future of Automotive Retail

Source: Frost & Sullivan
Transformational Shift No. 5: New Business Models - Car Sharing

Car sharing continues to grow and over 543,000 vehicles are expected to be shared in Europe by 2020.

### 2014

<table>
<thead>
<tr>
<th></th>
<th>Traditional</th>
<th>P2P</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>49,368</td>
<td>81,380</td>
<td>2,896</td>
</tr>
<tr>
<td>Vehicles</td>
<td>2.5 million</td>
<td>1 million</td>
<td>250 companies</td>
</tr>
</tbody>
</table>

### 2020

<table>
<thead>
<tr>
<th></th>
<th>Traditional</th>
<th>P2P</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>236,145</td>
<td>222,210</td>
<td>84,649</td>
</tr>
<tr>
<td>Vehicles</td>
<td>14.9 million</td>
<td>3.3 million</td>
<td>4,000 companies</td>
</tr>
</tbody>
</table>

Source: Frost & Sullivan
Transformational Shift No. 5: New Business Models - Ride Sharing
Comparative Market Positioning of Ridesharing business models

Public Transport

Planned – Long Distance

Higher Price per KM

Corporate Carpooling?

Lower Price per KM

Instant – Short Distance

“Fixed” Carpooling

“On Demand” Carpooling

“Taxi” & Limousine Services

“Transportation Network Companies”

Source: Frost & Sullivan
Transformational Shift No. 5: New Business Models – eHailing
Within 3 years ehailing taxis control close to 20% of the global taxi market

eHailing is dramatically revolutionizing the taxi industry business model. By 2020 the global taxi market is expected to reach 5 million vehicles growing at a CAGR of 4%

Source: Frost & Sullivan
Transformational Shift No. 5: New Business Models – eHailing
The rise of Uber and more is yet to come

As of Jan 2015

| Countries  | 58 |
| Cities     | 311 |
| Driver     | 324,074 |
| Customer   | 7,417,139 |

Source: Frost & Sullivan
Transformational Shift No. 5: New Business Models - Commercial eHailing

The Arrival of Uber Cargo Signifies a Dynamic Change in Logistics

Mobile Based Freight Brokerage Market: Revenue Scenario Analysis, North America, 2015 and 2025

CAGR: 39.3%

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$0.5</td>
</tr>
<tr>
<td>2025</td>
<td>$220.0</td>
</tr>
</tbody>
</table>

Source: Frost & Sullivan
Transformational Shift No. 5: Integrated Mobility

Technology enabled, any device delivery of real-time, door-to-door, multi-modal travel encompassing pre-trip, in-trip and post-trip services bringing Convenience, Time & Cost Savings to the Mobility User

Source: Frost & Sullivan
Transformational Shift No. 5: Connected Cars Accelerating Big Data Opportunities

Connected and Non-Connected Cars, North America and Europe, 2013 and 2020

Note: All figures are rounded. The base year is 2013.

Source: Frost & Sullivan
Transformational Shift No. 5: Impact of Connected Cars: Big Data

- Digital Leads
- Internet Aggregators
- Warranty Costs Reduction, Predictive Maintenance
- Product Performance Analysis, Production and Supply Chain
- User & Dealer Satisfaction
- Advanced Mobility services, Dynamic Navigation and Parking

Source: Frost & Sullivan
Transformational Shift No. 5: From Hands Free to Mind Free: Future Will See Fully-automated Vehicles

- **Drive and Let Drive Concept**
  - Can be manually driven or self-driven by the vehicle

- **Predetermined A-to-B**
  - Ideally suitable for Personal Rapid Transit (PRT)

- **Personal Mobility with Route Inputs**
  - Ideally suitable for urban commuters and people with special mobility needs

**Autonomous Adaptive Mobility Vehicles**

Fully-automated vehicles hold the potential for fundamental rethinking of vehicle designs. For instance, partially collapsible vehicles also save parking space when not in motion.

Source: Frost & Sullivan
Transformational Shift No.6: Women Empowerment
Five Ways Women are Impacting the Future of Mobility

Growing customer segment all countries

Women buy digitally

All OEMs launch models to win women

Women prefer to have a lease option

Women are highest trip makers but lowest mobility service users

Source: Frost & Sullivan
Transformational Shift No.6: Women Empowerment

More women drivers and customers in future than men … and women prefer leasing vehicles

<table>
<thead>
<tr>
<th>Country</th>
<th>Men holding a driving licence (%)</th>
<th>Women holding a driving licence (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>48%</td>
<td>51%</td>
</tr>
<tr>
<td>Canada</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>UK</td>
<td>45%</td>
<td>48%</td>
</tr>
<tr>
<td>Japan</td>
<td>44%</td>
<td>45%</td>
</tr>
<tr>
<td>Italy</td>
<td>41%</td>
<td>44%</td>
</tr>
<tr>
<td>Germany</td>
<td>41%</td>
<td>42%</td>
</tr>
<tr>
<td>Spain</td>
<td>41%</td>
<td>41%</td>
</tr>
<tr>
<td>Brazil</td>
<td>42%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: Frost & Sullivan
Transformational Shift No.6: Women Empowerment
Luxury Car Makers Using First Time Female Buyer Profiles

Aston Martin’s ‘Charlotte’
Maserati’s Professional Mother
Porsche Young Urban Females
Jaguar’s Gen Y Professional

Source: Frost & Sullivan
Transformational Shift No.6: Features and Attributes Women Value

Areas of low satisfaction form the battle ground for new OEM models

- **Green – Eco Friendliness**
- **Warranty Length**
- **360 Visibility**
- **Personal Storage - interior**
- **Infotainment**
- **Interior/Cabin Materials**
- **Manoeuvrability/driveability**
- **Safety and Safety Features**

High importance, low satisfaction

Medium importance, low satisfaction

High importance, high satisfaction

Source: Frost & Sullivan
Transformational Shift No.6: Women Empowerment
Interior is the Key Area of Dissatisfaction for European Women

Survey question: what are you dissatisfied with concerning your current car?

Source: Frost & Sullivan
Transformational Shift No.6: What a Car for Women Should Look Like

There is a market of vehicles designed for women. 1 in 5 want a car made for them while 2 out of 3 express a demand for personalisation options.

- SUV body type
- High visibility windows – 360 vision
- Leather and high strength fabric interiors
- Storage for personal items
- Adjustable seats, pedals and steering
- Integrated touch screen infotainment
- Auto assist functions - park assist and sensorised doors
- Run flat tyres
- Fuel type – petrol or hybrid
- Lease option
- 7 years+ warranty period
- Maintenance and tyres package

Source: Frost & Sullivan
Women Customers Demand Changes in Retail Approach
Women are social and digital and demand urban stores

42% of women consider the manufacturer’s website their main source of information when buying a car.

43% of women feel social media has a major influence on their car purchasing decision.

34% of women prefer car dealerships in a shopping mall environment.

Drivers of selection are financing choice, warranty and service package.

Source: Frost & Sullivan
How can Car Retailers “Future Proof” their business?
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Source: Frost & Sullivan
1. Put the Customer First and take a “Whole Customer Lifetime” view

Question….
Who famously said…

“You can have any colour you like… as long as it’s black”

Source: Frost & Sullivan
2. Embrace eRetailing and integrate the Customer Journey - involve social commerce, online store analytics, and Big Data analytics.

Future of Automotive Retail: Online Retail—360° Integrated Customer Journey, Global, 2014–2022

- **Need**
  - New car demand from a potential buyer
  - Brainstorming for the appropriate car in terms of budget and specifications
- **Search**
  - Visiting the Web store
  - Registration and log-in
  - Searching for the car in the products section and choosing the variant
- **Evaluate**
  - Online comparison, selection, and configuration
  - Request sent to the preferred dealer/database
  - Confirmation of the available combination
  - Test drive at the respective center
- **Purchase**
  - Option for trade-in of old car
  - Payment options—online/credit card/net banking/finance
  - Confirmation of order acceptance
- **Advocate**
  - Social commerce/community for loyalty points and updates
  - Visiting service centers for maintenance, repair, and replacement

Source: Frost & Sullivan
3. Map out the (Digital) Touch Points of your Customer’s Journey

Rockar offers seamless online-offline engagement with a customer at all stages of the purchase lifecycle; a configuration made in-store can be continued online, and vice-versa.
3. Digitalise the retail network/ experience with 3D Car Configurator

Source: Frost & Sullivan
4. Consider smaller, urban, high tech stores

Think
“Asset Light, Tech Heavy”

- Airbnb: The world’s largest accommodation provider, owns no real estate.
- Facebook: The world’s most popular media owner, creates no content.
- Alibaba.com: The world’s most valuable retailer, has no inventory.
- Uber: The world’s largest taxi company, owns no vehicles.

Who will be the largest car retailer without a single car in stock? 

Source: Frost & Sullivan
5. Consider Autonomous Cars and New Business Models: Future to evolve to bundling of motor insurance with other services

- Motor insurance built into extended warranty
- Motor insurance bundled along with property insurance
- Insurance risk split between manufacturer and other stakeholders
- Motor insurance offered by Vehicle Manufacturers

Source: Frost & Sullivan
6. Capture the Female Customer

Design a car for women customers

Prioritise digital transformation

Use women as routers and amplifiers of your social message

Design a ownership/access model specifically for women

Make your mobility offering more social and community based

Source: Frost & Sullivan
6: Capturing the Female Customer
Nissan’s 300 ‘Lady First’ Dealerships

- Stylish interiors - polished wooden floors
- Spacious children’s play area
- Female staff – sales and mechanics
- Larger, pink painted parking spaces for women*

*Seoul only currently

Sources: Nissan website, image – YouTube, Frost & Sullivan
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   - Customer Expectations

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5. New Automotive Business Models
   - New Automotive Business Models

6. Women Empowerment
   - Women Empowerment

Source: Frost & Sullivan
Learn More About the Digitalisation of Automotive Retail and New Mega Trends

Published White Paper:
THE GAME CHANGER IN AUTOMOTIVE RETAIL
How 3D Car Configurator technology can shift the point of engagement upstream in the Customer Journey

Author: Catherine Hutt
Publisher: Frost.com
http://corpcom.frost.com/forms/PR_3DCarConfigurator

Published Book:
New Mega Trends
Implications for our Future Lives
Author: Sarwant Singh
Publisher: Palgrave Macmillan